

# Instructions for Idaho Form 49E

## GENERAL INFORMATION

Form 49E is used to elect an exemption from property tax for personal property in lieu of earning the Idaho investment tax credit (ITC) on the property. This exemption is referred to on Form 49E and in these instructions as the qualified investment exemption (QIE).

The QIE is first available for property placed in service during calendar year 2003. It is allowed for the two calendar years that follow the end of the calendar year in which the qualifying property was placed in service. For example, for property placed in service during calendar year 2004, the QIE is available for calendar years 2005 and 2006.

If you elect the QIE, you cannot earn the ITC for Idaho income tax purposes on that property. You cannot change your election to claim the QIE on property once you have made it. If you sell or otherwise dispose of an item of property for which you claimed the QIE, or if the property ceases to qualify during the five-year period starting with the date the property was placed in service, you will be subject to recapture. See Form 49ER for the calculation of the recapture.

You must attach Form 49E to your operator's statement(s) or personal property declaration(s) filed for 2005. You must also attach a copy of this form to your original Idaho income tax return(s) for the income tax year(s) in which the property was placed in service. If multiple Forms 49E are submitted to one or more assessors, a copy of each Form 49E must be attached to the applicable year's income tax return(s).

### Qualifying Taxpayers

To qualify for the QIE, you must:

- Not have your rate of charge or rate of return regulated or limited by federal or state law, and
- Have had negative Idaho taxable income in the second preceding income tax year from the income tax year in which you placed the property in service.

Negative Idaho taxable income is computed for a year before applying any net operating losses from other years that you may be able to carry forward or carry back to that year. If you were not doing business in Idaho in the second preceding income tax year from the year you placed the property in

service, you do not qualify for the exemption. To determine whether you had negative Idaho taxable income in the second preceding income tax year, you must go back two income tax years from the income tax year in which you placed the property in service. For example, if you file income tax returns on a calendar year basis, and you placed property in service during calendar year 2004, you must have had negative Idaho taxable income for the calendar year 2002 to qualify for the election. A short tax year counts as one income tax year.

If you file income tax returns on a fiscal year-end basis, and in one calendar year you placed property in service in two different fiscal years, you will need to determine separately for each fiscal year whether you had negative Idaho taxable income in the second preceding income tax year from the tax year the property was placed in service.

For example, you file income tax returns for the fiscal year ending August 31. Assuming you had no short tax years, assets you placed in service from:

- January 1, 2003 through August 31, 2003 are assets placed in service during fiscal year ended August 31, 2003. You must have had negative Idaho taxable income for the fiscal year ended August 31, 2001 to elect the QIE on any of these assets.
- September 1, 2003 through December 31, 2003 are assets placed in service during fiscal year ended August 31, 2004. You must have had negative Idaho taxable income for the fiscal year ended August 31, 2002 to elect the QIE on any of these assets.

If you are part of a unitary group of corporations filing a combined report for Idaho income tax purposes, you must look to your Idaho taxable income, as computed according to Section 63-3027, Idaho Code, to determine whether you had negative Idaho taxable income in the second preceding tax year. This will be computed applying your Idaho apportionment factor to the combined income or loss for that year and including your income or loss allocated to Idaho.

The following table provides some examples of determining the second preceding income tax year. The second and fourth examples show how you determine the second preceding tax year when you have a short tax period that results from a change in income tax years.

TAX YEAR PROPERTY PLACED IN SERVICE	FIRST PRECEDING TAX YEAR	SECOND PRECEDING TAX YEAR
Calendar year 2004	Calendar year 2003	Calendar year 2002
Calendar year 2004	Calendar year 2003	Short tax year beginning Feb. 1, 2002 and ending Dec. 31, 2002
Fiscal year beginning Sept. 1, 2003 and ending Aug. 31, 2004	Fiscal year beginning Sept. 1, 2002 and ending Aug. 31, 2003	Fiscal year beginning Sept. 1, 2001 and ending Aug. 31, 2002
Fiscal year beginning Sept. 1, 2003 and ending Aug. 31, 2004	Short tax year beginning Jan. 1, 2003 and ending Aug. 31, 2003	Calendar year 2002

### Qualifying Property

The following is a brief description as to what constitutes qualifying property. For more detailed information, contact the Idaho State Tax Commission, Taxpayer Services at (208) 334-7660 or 1-800-972-7660.

#### General Information

The property tax exemption is available only on property that qualifies for the Idaho ITC. Idaho generally follows the definition of qualified investment credit property found in the Internal Revenue Code (IRC) Sections 46 and 48 as in effect prior to 1986. The property must be used in Idaho the first year it is placed in service. Qualifying property generally includes:

- Tangible personal property (other than air conditioning and heating units),
- Other tangible property (not including a building and its structural components) but only if used for certain purposes,
- Elevators and escalators,
- Single purpose agricultural or horticultural structures, and
- Petroleum storage facilities

Tangible personal property means any tangible property except land and land improvements. It includes all property that is contained in or attached to a building (other than structural components of the building).

Other tangible property, including depreciable land improvements (except a building and its structural components), qualifies if it falls in a category of property used as integral parts of manufacturing, production or extraction, or as an integral part of furnishing transportation, communications, electrical energy, gas, water or sewage disposal services by a person engaged in a trade or business of furnishing any such service, or is a research or bulk storage facility used in connection with any of these activities. The research facility does not have to be an integral part of the business activity. Bulk storage means the storage of fungible commodities in a large mass before consumption or use.

Single-purpose agricultural or horticultural structures qualify if specifically designed, constructed, and used solely for a qualifying purpose. If a structure is used for both qualifying and nonqualifying purposes, the structure does not qualify.

Items that do not qualify include:

- Buildings and their structural components. A building is any structure enclosing a space within its walls usually covered by a roof, the purpose of which is to provide shelter or housing, working, office, parking, display, or sales space. This includes apartment houses, factory and office buildings, warehouses, barns, garages, railway or bus stations, and stores. It does not include a structure that is essentially an item of machinery. Structural components include such parts of a building as walls, partitions, floors, and ceilings and any permanent covering thereof such as paneling, tiling, windows, doors, all components of a central air conditioning, or heating system, plumbing

and plumbing fixtures (including sprinkler systems and fire escapes).

- Property used in certain lodging facilities
- Property subject to amortization

#### Used Property

Qualifying used property is limited to a total cost of \$150,000 per income tax year, whether you claim the QIE, the ITC, or a combination of both for that year. In addition, you must have acquired the used property by purchase. If you have used property in excess of \$150,000, you must select the specific items on which to claim the QIE. If you select a particular item, the entire cost must be taken into account unless you have exceeded the \$150,000 limit. If the \$150,000 used property limit is exceeded, the remaining amount of an item selected and any items not selected do not qualify for the ITC. For example, used assets A, B, C, and D were placed in service, each costing \$70,000. Two of the assets will qualify and a third asset will partially qualify. You must select which two items qualify and which third item partially qualifies. If you claim the QIE on assets A and B, you may claim a partial QIE on either asset C or D, or you may claim ITC on asset C or D but only up to \$10,000, the remaining amount of the \$150,000 used property limitation.

#### Denial of QIE

If the QIE is denied for all or part of the market value of any property for which the QIE had been elected, the county assessor will notify you of this fact and the basis for the denial.

### SPECIFIC INSTRUCTIONS

#### Heading

Enter the name that is used on your personal property declaration or operator's statement.

Enter your social security number or your federal employer identification number, whichever is applicable, in the space provided.

#### Loss in Second Preceding Tax Year

You must have had negative Idaho taxable income without regard to net operating loss carryovers or carrybacks in the second preceding tax year from the income tax year you placed the property in service. In the space provided, enter the last day of your income tax year that ended in calendar year 2004. For example, if you are a calendar year taxpayer, enter December 31, 2004. If you are a fiscal year taxpayer, enter the last day of the fiscal year that ended during 2004. If you had two income tax filing periods that ended during 2004, enter both ending dates.

If during calendar year 2004 or the previous two years you had a short period tax year for income tax purposes, you must attach a statement that identifies the ending dates for each income tax filing period during that two-year period. For example, if during 2003 you changed from filing income tax returns on a calendar year basis to filing them on a June 30 year-end basis, you would attach a schedule and identify the tax year ending dates as December 31, 2002 and June 30, 2003.

### **LISTING OF PROPERTY ELECTED**

You must designate each specific asset and its location for which you are claiming the QIE for calendar year 2004. Group listings of assets will not be accepted. If you cannot list all the elected assets on page one, use page two or multiple pages two as necessary.

#### **Asset Number**

Enter the asset's assigned identification number.

#### **Asset Description**

Enter a description of the asset. The description must be in sufficient detail to identify the property. If the make, model, or serial number is not available, include other identifying information that will describe the asset.

#### **County in Which Asset Located**

Enter the county in which the asset is located. If the property is used in more than one county, enter the home county in which the asset is located.

If you are claiming the QIE on used property, you must notify all counties in which you are claiming the QIE of the amount of used property elected. You may do this in one of two ways:

- Attach copies of all Forms 49E that list used property to the personal property declaration sent to each county, or
- Complete a separate Form 49E that lists only used property and send that to each county.

*Exception to above rule:* If you are electing the QIE for property that is State Tax Commission assessed nonregulated operating property, you must list on Form 49E every county where each asset is located, regardless of whether the asset is new or used.

#### **Date Placed in Service**

Enter the date you placed the asset in service. Property is placed in service in the earlier of :

- The income tax year in which, under your depreciation practice, the period for depreciation of the property begins, or
- The income tax year in which you placed the property in a condition or state of readiness and availability for a specifically assigned function.

If you did not use the asset in Idaho during the first year the property was placed in service, the asset does not qualify. For example, if you purchased the asset in 2002 and used the asset outside of Idaho until moving it to Idaho to use during 2004, the asset will not qualify for the QIE.

#### **Qualifying Loss Year**

Enter the beginning and ending dates of the qualifying loss year. This must be the second preceding income tax year from the income tax year in which the property is placed in service.

If you file your income tax returns on a calendar year basis, and you did not have any short period tax years during the previous two years, enter January 1, 2002 to December 31, 2002. If you did not have negative Idaho taxable income for 2002, you cannot make the election on property placed in service during 2004.

If you file your income tax returns on a fiscal year basis, or you had a short period income tax year, you may have two different qualifying loss years. Identify the applicable qualifying loss year for each asset.

If you are a partnership or S corporation, your net business income apportioned to Idaho plus the nonbusiness income or loss allocated to Idaho for the second preceding income tax year must be negative.

#### **New or Used**

Indicate whether the asset is new or used. For the limitations on used property, see Used Property on page 2.

#### **Original Cost**

Enter the asset's original cost. This should be the same amount as you would list as the purchase price on the Idaho Personal Property Declaration. Include trade-in allowances and all associated costs incurred to acquire and prepare the item for its intended use.